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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
ROBERT L. BURNS
SUSAN BITTER SMITH

PROPOSED RULEMAKING TO MODIFY THE RENEWABLE ENERGY STANDARD RULES IN ACCORDANCE WITH ACC DECISION NO. 74365.	DOCKET NO. RE-00000C-14-0112 **NOTICE OF FILING COMMENTS OF WESTERN RESOURCE ADVOCATES**

Western Resource Advocates ("WRA"), through its undersigned counsel, hereby provides notice that it has this day filed the attached comments regarding Staff's proposed options in this matter.

DATED this 21st day of April, 2014.

ARIZONA CENTER FOR LAW IN THE PUBLIC INTEREST

By _____
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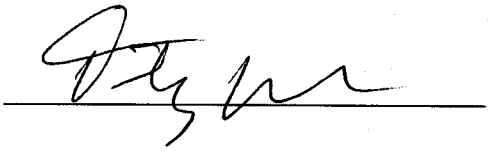
ORIGINAL and 13 COPIES of the foregoing filed this 21st day of April, 2014, with:

Docketing Supervisor
Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

COPIES of the foregoing electronically mailed this 21st day of April, 2014 to:

All Parties of Record



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
Bob Stump, Chairman
Gary Pierce
Brenda Burns
Bob Burns
Susan Bitter Smith

PROPOSED RULEMAKING TO MODIFY THE RENEWABLE ENERGY STANDARD RULES IN ACCORDANCE WITH ACC DECISION NO. 74365.	DOCKET NO. RE-00000C-14-0112 COMMENTS OF WESTERN RESOURCE ADVOCATES ON STAFF'S PROPOSED OPTIONS

Staff has provided the Commission with a wide range of options for consideration in this Docket. Western Resource Advocates provides the following comments on Staff's options.

The Commission should consider four factors in assessing each option:

1. Is the option **practical**? Can it be implemented easily? Does it contain any internally inconsistent provisions? Does it send counter-productive signals to utilities or customers?
2. What **direct costs** (out-of-pocket costs) would the utility incur to implement the option?
3. Could the option **devalue renewable energy credits (RECs)** by impeding commerce in RECs or by precluding customers from using their own RECs to meet their clean energy goals? Impediments could occur, for example, if a REC owner could not sell a certified REC to another party in the voluntary national REC market because the Commission or a utility implicitly counted the REC owner's kWh of renewable energy generation to meet or adjust the distributed generation (DG) requirement, even though the REC owner did not explicitly transfer the RECs to the utility. Certification of those RECs would be withheld by a certifying entity because there would be multiple claims to the same RECs. A similar problem arises if the facility owner wants to count the RECs toward meeting its own clean energy goal.
4. Would the option **weaken market confidence** regarding the role of distributed renewable energy in Arizona?

Table 1 summarizes Staff's options along these four factors for distributed generation. We believe that Staff's option 2 ("Process where utility would purchase least cost RECs or kWh") fares the best. It is workable because utilities could implement a simple-to-use web-based market acquisition process. Its cost is low in that REC prices in voluntary REC markets have been around $1 per MWh.[1] It does not devalue RECs because no claim is made by or for a

[1] Jenny Heeter, "Current State of the Voluntary Renewable Energy Market," presentation at Renewable Energy Markets Conference, Austin, TX, September 24, 2013, http://www.nrel.gov/docs/fy14osti/60357.pdf. Jenny

utility on RECs the utility has not acquired. And it retains market confidence in the Commission's policies to support distributed renewable energy. None of the other options is superior across all four factors: some are impractical, some devalue RECs, and some have the potential to weaken market confidence.

To put the cost of option 2 in perspective, APS reported that its distributed renewable energy requirement increased from 298,987 MWh in 2012 to 337,526 MWh in 2013, for an increase of 38,539 MWh. Assuming the market price of RECs is $1/MWh, and assuming APS paid up front for 38,539 MWh per year for 20 years (allowing for future deterioration in MWh production), APS would have spent about $388,000 to acquire those RECs. This calculation assumes APS paid facility owners the present value of 20 years of future RECs associated with the increment in DG requirements from 2012 to 2013. APS indicated that its 2013 REST expenses were about $95 million. Purchasing a package of 20 years of RECs associated with the incremental requirement for 2013 would have been 0.4% of APS's 2013 REST costs.[2]

We recommend that the Commission adopt Staff's option 2 for distributed resources, use its review of implementation plans to authorize utilities to purchase RECs to meet the DG requirement if additional RECs are needed, and require utilities to demonstrate in their compliance reports that the process for acquiring RECs resulted in the lowest cost. In general, a competitive market acquisition process would suffice to demonstrate that RECs were obtained at the lowest cost. **No change in the REST rule is needed.**

It is unclear whether some of Staff's options would apply to utility scale renewable energy resources. If the Commission decides to pursue an option that applies to utility scale projects and dispenses with the use of RECs, any resulting rule change should not allow facilities serving non-jurisdictional entities to also count toward meeting ACC renewable energy requirements.

Lastly, Staff identified a threshold issue – whether the Commission wants to measure all DG production regardless of REC ownership or just measure the amount of RECs owned by utilities. The Commission currently can obtain both sets of information. Utilities should report how much energy is being produced by all DG under the current rule (A.A.C. R14-2-1812(B)(1) and (2)), whether or not the utilities acquire the RECs. In a separate provision, A.A.C. R14-2-1812(B)(5) indicates that utilities are to report how many RECs they have obtained to demonstrate compliance with the REST.

Heeter and T. Nicholas, *Status and Trends in the U.S. Voluntary Green Power Market (2012 Data)*, NREL/TP-6A20-60210, 2013, http://www.nrel.gov/docs/fy14osti/60210.pdf.

[2] APS reported greater expenditures in 2013 for incentives because the applicable incentive in 2013 was more than $1/MWh, because APS acquired more RECs than needed for compliance in 2013, and because APS's REC expenditures in 2013 included incentive commitments made in earlier years.

Table 1. Comparison of Options for Distributed Renewable Energy Resources

Options	Practicality	Future cost to utility	Devaluation of RECs	Effect on market confidence
1. Track & Monitor DG	Workable but customer investment in DG may decrease because RECs will be devalued	Depends on volume of any future incentives needed to comply	Devalues RECs because kWh for which RECs have not been acquired by utility are used to reduce REST requirement	Weakens confidence by devaluing RECs & appearing to reduce REST requirements; may result in decreased DG investment
2. Utilities purchase least cost RECs or kWh	Workable: utilities acquire RECs in market; market determines price of RECs	Low at today's REC prices	No devaluation occurs	Retains confidence in REST; the renewable energy standard and DG carve out remain in place
3. Maximum conventional energy requirement	Time consuming: rewriting rule will be complex; unclear how DG or purchases of system power would be addressed	Above market cost (if any) of non-conventional resources	Depends on how rule is rewritten; RECs may not be needed	No assurance that renewable energy would be acquired; purpose of policy confusing
4. Mandatory UFI	Workable: similar to recent practice; however, UFI should be flexible to respond to market and policy changes and not be specifically set in the REST rule	More expensive than option 2 if mandated price > market price of RECs	No devaluation but only if ACC grants a waiver when it uses kWh of all distributed energy to determine whether sufficient DG is being installed	Likely to retain confidence in REST unless waivers are routinely granted or amount of DG is less than that required by REST over long run
5. REC transfer with net metering	Premature: need information on costs and benefits of DG (subject of a future proceeding); depends on future changes to net metering policy and to rate design	Depends on volume of any future incentives needed to comply	Probably no devaluation if RECs transferred voluntarily and owners are compensated	Depends on future changes to net metering policy and rate designs; may discourage investments in DG
6. Recovery of utility DG costs through rate case	Anachronistic: applies old business & regulatory model developed for a slowly changing monopoly to rapidly changing circumstances with new market entrants and rapid innovation	Likely increases costs due to higher risk premium (via utility's cost of capital) and possibly due to utility ownership of DG	No devaluation but only if ACC grants a waiver when it uses kWh of all distributed energy to determine whether sufficient DG is being installed	May slow down rate of innovation; may result in decreased adoption of DG; may crowd solar companies out of market if utilities own significant amount of DG; routine waivers would undercut market confidence
7. Track & record	Internally inconsistent: compliance requires implicit claim on RECs that are not obtained by utility despite statement that RECs stay with facility owners	Depends on whether incentives needed to meet REST	RECs will be devalued because compliance is determined by considering kWh for which RECs were not acquired by utility despite statement to contrary	Weakens market confidence due to implicit claims on RECs and denial that such claims are made